

Nike company analysis

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Nike Inc. International Strategic Marketing 8 Prepared for: 22-03-2009

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Summary Nike is a major publicly traded sportswear and equipment supplier based in the United States. It is the world's leading supplier of athletic shoes and apparel, and a major manufacturer of sports equipment. They have a market share in the United States exceeding 40%. Nike also distributes its products outside the US. In 140 countries, Nike sells products through independent retailers , distributors etc.

In the ever changing markets, Nike is facing multiple challenges to remain market leader. Foot Locker was always a great partner for Nike. Foot Locker, as the world's largest footwear retailer, was an perfect way for Nike to distribute and introduce their new products. But Foot Locker wants to meet consumer demands. So Foot Locker said that they would reduce the more expensive Nike shoes, and focus on more midpriced shoes. This caused a break in the close relationship between Nike and Foot Locker. Nike is basically a distributor. They do not produce their products by themselves.

Nike's products are manufactured by third parties. So the main focus at Nike is on R and marketing. Innovation, and making the consumer actually want the product is key for Nike. Nike products are manufactured in Southeast Asia. The producer of Nike products are independent contractors where Nike does not own any of. The main reason why Nike products are manufactured in these countries is because of the low wages. Low cost labor significantly increases the gross margin on their products. These low wage countries had some significant downsides, thought .

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When the working conditions, as well as allegations of abuse and harassment became public (done by activists) Nike suffered serious bad publicity. For a company that heavily relies on marketing and PR, this is a serious problem. While Nike tried to neglect these allegations, activists continued to blame Nike. Because the focus at Nike is heavily at marketing and R, Nike always tries to create the right image for the consumer. They do this by constantly innovating (such as the Nike+ series), and attaching famous sports players to the brand. Players such as Tiger Woods, Roger Federer and Wayne Rooney.

The last years Nike sees that competitors is catching up and in several segments demand is decreasing. While these are all external factors that influence the company, Nike remains stable in terms of sales, gross margin and operating profit (increased to 10, 2 percent in 2002, from 9, 3 percent in 2001). While Nike remains to have positive numbers, the industry growth is hard to predict. While, for example, women casual tennis footwear sees an explosive growth, premium priced athletic shoes is clearly declining. Also competition is not standing still. The main competitors of Nike are New Balance, Adidas, and Reebok.

New Balance is a company focused on athletic sports. They operate in the market segments of running, walking, tennis, basketball etc. Along with this, New Balance expanded their target market by acquiring Dunham Bootmakers. With this they were now also on the market of outdoors such as hiking, boat shoes and sandals. Another acquisition of New Balance took place in 2001 with PF Flyers which gave them access to the casual market.

Another competitor, Adidas, is the world's number two on footwear and apparel worldwide. Adidas is very much comparable to Nike. With high end technology, and important sponsors.

The last of the very important competitors is Reebok. Reebok is the largest growing company. The company changed of strategy when they got the exclusive NFL deal and started sponsoring the in-field gear of NBA teams. The challenge for Nike is to remain ahead of the competition, continue to be innovative and make sure their image stays on top. Analysis Nike and its subsidiaries are selling an extensive line of sports products throughout the world. Nike is competing in the market with Adidas, Reebok, New Balance and many other brands. [pic] Growth Strategy Nike operates in several market segments.

Within these segments Nike is always looking for ways to grow. Nike is an international company that makes sure they can sell their products in the best possible way. That is why Nike today has several different retail possibilities such as Nike factory outlets, Nike stores and others. In April 2002 Nike acquired the Hurley International and gained access to the market segment for surfing, skateboarding and other youth lifestyle extreme sports. Nike was already selling different products under brand names such as Bauer. But still Nike's core business was athletic running shoes.

But growth in sales in 2003 was not very large. Only the women tennis casual footwear was experiencing significant growth. But this was due to the fact that the casual lifestyle segment was gaining popularity at that moment. So Nike decided to shift some of its main focus to other markets in the casual

market. The casual market is the market with the most potential growth according to analysts, but weak growth in equipment (basketball, running etc). The growth in the casual market takes place in the non-performance segment. Thus Nike has to adapt to the fact that Nike can also be seen as a fashion object.

Nowadays Nike is still the company with the most market share not only in the US, but also globally. And with making innovations in the consumer market, Nike was able to increase the market share. An example is the 'Air-Jordan shoe line' which became extremely popular. Nike should stay focused in analyzing the changing demands of consumers in order to maintain the market share. The Air Jordan shoe line were very popular, but when Jordan retired Nike should be ready to come up with a successor. Also, the company should not be afraid to shift to other markets.

The casual non-performance market is clearly growing, and in the athletic market (Nike's core business) growth is clearly declining. Internally, Nike should keep their focus on marketing and R, which is their strength. Nike does not produce its own products. Nike clearly made some mistakes in the past by hiring independent contractors they have no influence over. [pic] Nike has clearly suffered with the image of sweatshops in Southeast Asian countries. Because Nike does not produce the products by their own factories, they heavily rely on the image consumer has of the company.

R is also a heavy factor for Nike. Nike is the global leader on the market, but they have to come up with constant new ideas product development and maintaining a high level of research in the desires of the consumer, Heinz

will maintain successful. Competitor Analysis The market where Nike in is operating is high competitive. The athletic footwear, apparel and equipment segments are intensely competitive all around the world. Main competitors are the German-based Adidas, New Balance Athletic Shoe Inc and REEBOK.

Adidas-Salamon AG

The well known ‘ three stripes’ Adidas is popular all around the world. Just like Nike, is Adidas producing all kind of products, most of them related to sports. Adidas is one of the largest competitors in the industry. One of the flagships of Adidas is still the ‘ old-style’ sneakers (See picture). Also Adidas is working with sport stars in their marketing campaigns, in order to increase brand awareness and revenues. In 2002, this lead to an overall market share of 11% and global sales with a revenue of almost \$7 billion. REEBOK

In comparison with Nike and Adidas is REEBOK also producing casual clothes. With the brands Greg Norman, Rockport and Ralph Lauren, the company is selling casual clothes. Since 2000, the company is competing again with Nike. With the return of Paul Fireman, operating activities increased and Reebok was able to compete again. The company’s marketing budget for 2003 was reported to be \$40 million. A high percentage of this amount is going to the basketball world. Reebok is sponsoring a lot of teams in the NBA in order to create brand awareness. Since 2005, Reebok is part of Adidas.

New Balance Athletic Shoes For many years this company was working with the same shoe outlets. The shoe outlets were successful, but New Balance wanted more. Therefore the company decided in 2000 to include independently owned retail stores. In this stores, more products could be

sold. By the end of 2002, New Balance was distributing their products to over 90 independent retail stores. With this new corporate strategy, the company was able to increase sales with 25% in 2001 and 2002. SWOT Analysis Nike
Strengths Brand awareness Nike is the most well known sports brand in the world.

Everyone knows the Nike logo (the ‘Swoosh’) and the brand is popular because of its premium quality, design and image. Product range The company is offering many products on the market and therefore can compete in many segments. Because of the global market, Nike can produce on economies of scale. Nike does not own any factories, but chooses the cheapest location to produce (almost always Asia). When a cheaper location is found, Nike can easily switch because it does not own the factory.

Research & development Nike is famous because of the nice design, and innovative products.

Because the company is producing many products, a high amount of R is invested. But this money is worth it. Nike is always able to come up with innovative designs of clothes and products. Weaknesses Production circumstances Because of negative publicity, a lot of people nowadays associate Nike with bad working conditions for the people who manufacture the products. Child labor, unhealthy factories and dangerous work, all contributed to this image what some people have from Nike. The ethical responsibilities from Nike are important in order to create brand loyalty.

Opportunities Product development Coming up with innovative products can be really profitable. Or producing so called ‘high profit’ margin products like

watches and sunglasses. Threats Competition The market where Nike is in operating is very competitive. Especially the shoe market, has a lot of competition. Therefore Nike should stay focused on innovation, price/value ratio, marketing and customer service. Economic situation Most of Nike's products are higher priced than comparable products. This mainly because of the brand image.

When there is a recession, consumers are more persuaded to buy cheaper, comparable products from a different producer. 5-Forces Model [pic] The power of suppliers is low. For most products, Nike is using simple raw materials. These materials are available with many suppliers. Also Nike is famous for replacing its production many times. Nike produces the products, where it is the cheapest. [pic] The power of customers is also low. Because most of the sales are B2C, the buyers cannot concentrate and have low power. Only threat is that customers, can easily switch to other (comparable) products. [pic] The threat of new entrants is low to moderate. The market is high competitive and dominated by a few large players. First of all, a high amount of investment is required. It is not cheap to produce such a high quantity of shoes, like Nike is doing. Next to this, the costs for R and marketing are extremely high. Therefore we can conclude, that a possible new entrant must possess over a lot of capital, patience and qualities. [pic] The threat of substitutes is medium. Although the 'switching costs' for consumers are not there, Nike is noticing high brand loyalty.

This is mainly because of the brand image, quality and with the shoes, the level of comfort. But consumers are price sensitive and are seeking for high

value with their sports clothes and related products. In times of economic recession, consumers are seeking for ways in order to save money. This can be, searching for alternative brands. Therefore Nike must closely the monitor the consumer market and the domestic economy. [pic] The rivalry in the industry is high. Exit barriers are quite high, therefore the same players are already for a long time competing in the market. ----- Market Share 2008